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FISCAL IMPACT STATEMENT

LS 6337

BILL NUMBER: HB 1001

NOTE PREPARED: Mar 11, 2004

BILL AMENDED: Dec 2, 2003

SUBJECT: Property Tax Relief.

FIRST AUTHOR: Rep. Crawford

FIRST SPONSOR: Sen. Borst

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill makes several changes to the property tax system. The summary below includes all of the provisions of the bill. However, because most of these provisions have already been enacted in the same form in SEA 1 (2004), the body of the fiscal note will focus solely on the substantive differences between the two bills.

Bond Bank Investments: The bill authorizes investment of state funds, including the Common School Fund, in certain obligations of the Indiana Bond Bank.

DLGF Takeover of Assessment: The bill authorizes the Department of Local Government Finance (DLGF) to take over the 2003 general reassessment process (including the equalization study) in a county if the county's equalization study was not submitted to the Department before October 20, 2003, or if the DLGF determines that the county's reassessment is likely to be inaccurate.

Three Appraisal Methodologies for Rental Properties: The bill requires the property tax liability payable in 2006 and thereafter on residential rental properties that have more than four rental units to be computed using the lowest assessed valuation determined by applying each of the following appraisal techniques: (1) cost approach; (2) sales comparison approach; and (3) income capitalization approach. The bill provides that the gross rent multiplier method is the preferred method for valuing rental properties that have fewer than five rental units and mobile homes.

Electronic Submittal of Sales Disclosure Forms: The bill provides that after December 31, 2004, the sales disclosure forms and data forwarded by local assessors to DLGF and the Legislative Services Agency (LSA) must be provided in electronic format.

Installment Payments and Penalty Waivers: With respect to property taxes payable on homesteads, and upon petition of the county fiscal body, the county auditor, and the county treasurer, the bill authorizes DLGF to: (1) establish a schedule of installment payments for taxes payable in 2004 or thereafter; or (2) waive late payment penalties for taxes payable in 2004.

Maximum Tax Rates: For property taxes and special benefits taxes payable after 2003 and based on the most recent general reassessment, the bill adjusts maximum rates that were not adjusted for taxes payable in 2003. It also provides for an adjustment of the maximum rate each time an annual assessed value adjustment or a general reassessment takes effect.

Maximum Levies: The bill eliminates the banking of unused levy allowances in calculating the maximum permissible property tax levy for a civil taxing unit, for a county Family and Children property tax levy, and for a county Children's Psychiatric Residential Treatment Services property tax levy.

Certified Assessed Value: This bill also eliminates authority to adjust assessed values to reflect the effects of appeals of assessments. The bill permits a civil taxing unit or school corporation to file a property tax appeal before December 31 (instead of September 20) for relief from a shortfall resulting from the use of erroneous assessed values or the payment of refunds.

Appeal Process: The bill provides that the initial step in the appeal of property assessment is a written request by the taxpayer for a preliminary conference with a county or township assessing official. The written request need not be on a DLGF form. Notwithstanding a property assessment agreed to by the township assessor and the taxpayer in resolution of an appeal to the county property tax assessment board of appeals, the bill permits the board to determine its own assessment under its authority to assess property for the current year. The bill allows, for the assessment dates in 2003 and 2004, an appeal of a real property assessment that is filed within 45 days after a taxpayer receives the tax statement based on the assessment for the preceding year.

Automatic Refunds for Successful Appeals: The bill eliminates the requirement for a taxpayer to file a claim for refund after a successful assessment appeal.

Elimination of Appeal for Alternate Use of CAGIT PTRC: The bill eliminates the property tax appeal provision that permits local units to reallocate CAGIT property tax replacement credits for a purpose other than property tax relief.

Levy Excess Fund: The bill provides for deposit in a taxing unit's Levy Excess Fund of property tax collections in excess of 100% (instead of 102%) of the unit's levy.

Approval of Appointed Library Board Levies: With respect to the review of budgets and levies of taxing units that have a governing body comprised primarily of appointed members and propose to increase their property tax levies by more than 5%, the bill adds library districts to the entities subject to review and authorizes reduction of the proposed levy to an amount that is less than the maximum permissible levy.

Provisional Property Tax Statements: The bill allows counties to issue provisional tax statements if the abstract is not delivered in a timely manner. The DLGF is authorized to waive the provisional tax statement requirement under certain circumstances.

Qualifications of Assessors: The bill provides that county assessors, township assessors, and trustee assessors who do not meet certain certification requirements forfeit their offices. The bill also requires DLGF to give the examinations for certification in an open book format.

Validation of Actions Taken by the DLGF: The bill also legalizes and validates any action taken by DLGF before January 1, 2004, to extend the deadline for filing an assessment appeal to the county, to allow the payment of property taxes in installments, or to waive a late payment penalty.

Deduction/Credit Filing Extension: It also permits an individual who was eligible for but did not apply for a Homestead Credit or certain property tax deductions for taxes payable in 2004 to apply on or before December 15, 2003.

Assessment Software: The bill requires DLGF to study the feasibility of creating uniform and common computer software programs for property tax assessment purposes, including computer software programs that allow the sharing and transfer of assessment data in a uniform format by the state and all counties.

Taxpayer Notice: The bill also requires, for property taxes payable on homesteads in 2004, DLGF to provide each county treasurer with the wording of a statement of the amount by which the property taxes in the county were reduced by actions of the General Assembly to mitigate the effects of the general reassessment. It also requires the county treasurer to include the statement with each tax statement mailed or otherwise transmitted.

Special Masters: This bill provides for special masters to hear appeals to the Indiana Board of Tax Review.

Petition and Remonstrance: The bill requires the State Board of Accounts to design a standard form of the petition that is used to initiate the petition and remonstrance procedure. The bill provides that the petition requires the signatures of the lesser of 100 or 5% of the property owners in the political subdivision (instead of 250 or 10%). It also prohibits a political subdivision (including a school corporation) from taking certain actions to promote a position on a petition for or remonstrance against a bond issue or lease. It also prohibits a person from soliciting or collecting signatures for a petition or remonstrance on property owned by the political subdivision

Property Tax Study: The bill requires the Commission on State Tax and Financing to study elimination of property taxes and alternative sources of revenue.

Homeowner's Income Tax Deduction For Property Taxes Paid: The bill increases the cap on the income tax deduction for property taxes paid on a principal place of residence for homeowners who pay property taxes imposed for the March 1, 2002, or January 15, 2003, assessment dates in 2004.

Effective Date: Upon passage; May 8, 2003 (retroactive); May 10, 2003 (retroactive); July 1, 2003 (retroactive); January 1, 2004; March 1, 2004; July 1, 2004.

Explanation of State Expenditures: *DLGF Takeover of Assessment:* If the Department of Local Government Finance (DLGF) orders a state-conducted reassessment, the DLGF must assume the duties of the county's reassessment officials. Before assuming the duties, the DLGF must transmit a copy of the order requiring a state-conducted reassessment to the county's reassessment officials, the county fiscal body, the county auditor, and the county treasurer. Notice of the DLGF's actions must be published in a newspaper of general circulation **that is published in the county.**

HEA 1001 also allows an unlimited number of extension periods for emergency rules adopted by the Department of Local Government Finance and the Indiana Board of Tax Review to administer state-conducted assessments.

Explanation of State Revenues: *Homeowner's Income Tax Deduction For Property Taxes Paid:* A noncode section of the bill corrects the homeowner's property tax deduction (for purposes of the individual Adjusted Gross Income (AGI) Tax) as amended by SEA 1- 2004 (P.L. 1 - 2004). The noncode section supercedes the statutory changes made under P.L. 1 - 2004. Under P.L. 1 - 2004, the maximum allowable homeowner's property tax deduction is temporarily increased in tax year 2004. This one-year increase applies only to homeowners who have any or all of their 2002 Pay 2003 property taxes deferred to tax year 2004. (The maximum allowable deduction is otherwise \$2,500 in a taxable year.) **HEA 1001 ensures that the deduction a taxpayer may claim in 2004 for these deferred property taxes may not exceed \$2,500 minus the deduction claimed in tax year 2003 for 2002 Pay 2003 property taxes that were paid in 2003 (and not deferred to 2004).** In addition, the taxpayer would still be able to claim in tax year 2004 up to a \$2,500 homeowner's property tax deduction for 2003 Pay 2004 property taxes.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Certified Assessed Value:* This bill would remove county auditors' authority to reduce the certified AV to compensate for appeals. The inclusion of AV that is successfully appealed would cause some tax rates to be set too low, resulting in tax shortfalls. However, the bill also allows civil units and school corporations to seek an excessive levy in the following year to compensate for shortfalls caused by successful appeals. **Under current law, all excessive levy appeals must be filed by September 19th. HEA 1001 allows taxing units to file appeals for excessive levies due to shortfalls by December 30th each year.**

Deduction/Credit Filing Extension: The property tax deductions that would be available for taxes paid in 2004 under this proposal if applied for by December 15, 2003, include the mortgage, aged, blind/disabled, and veteran's deductions. The \$35,000 standard deduction is also included and is automatic when the homeowner receives the Homestead Credit. **HEA 1001 clarifies that the taxpayer may file the deduction application on or before December 15, 2003.**

State Agencies Affected: Indiana Bond Bank; State Treasurer; State Board of Accounts; Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations; County auditors; Appointed Library Boards.

Information Sources: Indiana Bond Bank; 2002 and 2003 County Auditors' Abstracts; Local Government Database; Nancy Stassen, Director, Operations Division, and Pam Drinkard, Department of Local Government Finance.

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